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SUBJECT: GREECE: Ambassador's Call on Minister of Economy Katseli

¶1. (SBU) SUMMARY: In a 90-minute tour d'horizon of the Greek economy, Ambassador Speckhard's November 6 courtesy call on newly-appointed Minister for Economy, Competitiveness, and Shipping Louka Katseli revealed the challenges confronting the new Greek government. Katseli described her newly-formed ministry as one that will focus on "development instruments," private and public investment, trade and export policy, foreign direct investment, and shipping. Her charge in the short-term is to pull Greece out of the recession; for the long-term, to enhance competitiveness through structural reforms. Katseli admitted Greece has an inhospitable business and investment climate, not only for foreigners but for Greeks as well. She aims to change that by reinvigorating the "Invest in Greece" one-stop shop mechanism, addressing the regulatory framework, and increasing transparency. The Ambassador stressed the need for greater reliability in the business environment; bad U.S. company experiences are already contributing to a credibility issue for Greece. A new focus on electronic governance by the Papandreou government, Katseli predicts, should help facilitate investment and boost collection of traditionally-evaded taxes. Katseli expressed great interest in her ministry's participation in the ECCC, acknowledging that the strategic economic dialogue's success would hinge on broad Greek participation. On the continuing Piraeus port strike, Katseli assured the Ambassador that the COSCO contract would be honored, acknowledging the signal this sent to potential foreign investors. Katseli talked of better integrating shipping (the number two contributor to GDP after tourism) into the broader Greek economy. Recognizing Greek shippers' disappointment with the disbanding of a dedicated maritime ministry, Katseli will personally handle the portfolio although the piracy issue will be the preserve of the Ministry of Citizens Protection. The minister bemoaned the fact that Greece is no longer competitive in low-skill industries, because of the high cost of wages; instead, Greece needs to exploit its rich human capital and focus on building an innovative economy. END SUMMARY.

¶2. (SBU) Ambassador Speckhard paid a courtesy call on Louka Katseli, Minister of the newly-created Ministry of Economy, Competitiveness, and Shipping, during which Katseli focused heavily on the need to undertake structural reforms to improve the business and investment climate of Greece. Her mandate is to quickly turn around a sagging economy but she offered few specifics, with the exception of the 800 million euro increase in public investment in the 2010 budget, on how the GoG would achieve this. Ultimately, Katseli hopes to tackle a burdensome regulatory framework, improve transparency, root out corruption, and streamline a cumbersome bureaucracy to attract greater Foreign Direct Investment (FDI). The Ambassador underscored the need for Greece to create an environment of predictability, which investors demand. Katseli anticipates presenting a bill to Parliament in 2010 to simplify the regulatory framework. Another of her early initiatives will be to put the decision-making power back in "Invest in Greece," the country's one-stop shop.

3 (SBU) PM Papandreou is keen to facilitate investment, Katseli said, and attracting US FDI is at the top of that list. To this end, Katseli will participate in the Capital Link Investment Forum in New York December 2-3. [NOTE: We are currently trying to recruit a USG official, possibly from Treasury or OPIC, to address the forum, which is for institutional investors. The Ambassador separately offered USG assistance with setting up appointments for Katseli with USG officials in Washington around the early December timeframe. Post would welcome meetings with E, USTR, Commerce, the Competitiveness Council, and the National Labor Relations Board. END NOTE]

14. (SBU) Responding to the Ambassador's comment on the changing nature of commercial laws and congestion in the Greek commercial courts, Minister Katseli acknowledged the pressing need to introduce mediation and arbitration in Greece. Greek lawyers currently are not paid for arbitration efforts, creating a disincentive to go that route. Instead, lengthy legal conflicts often ensue. Turning to the Port of Piraeus strike, Katseli stated that COSCO's contract would be honored, despite campaign rhetoric that some privatizations would be re-examined. However, she indicated the new government would be reviewing the tax concessions, which were a supplementary agreement and have come under scrutiny and criticism because the EU and WTO could determine them to be illegal indirect state subsidies.

15. (SBU) Katseli, while no longer handling the port strike negotiations, hopes otherwise to work closely with the shipping industry to better integrate that sector into her vision for the

broader development of the Greek economy. [NOTE: Oddly, tourism, which is Greece's biggest contributor to GDP, is under the Ministry of Culture and not an econ-related ministry. END NOTE] Katseli has plans to upgrade ports and logistic centers, and make the shipping sector more attractive to Greek job seekers. Katseli admitted that Greek ship owners initially were unhappy that they were placed under the rubric of the Ministry of Economy; however, she hopes to assuage their concerns by personally handling the portfolio. When the issue of maritime piracy was raised, Katseli flatly said that would be handled by the Ministry of Citizens' Protection.

16. (SBU) Katseli talked enthusiastically about building the Greek economy by focusing on certain sectors, such as shipping, in which Greece had a competitive advantage. She sees potential in high tech, renewable energies, and other innovative sectors which can utilize Greece's vast human capital. Greece should be able to play a larger regional economic role, as a gateway to the Balkans, Middle East, and Africa, Katseli said. The 43 enterprise zones in Greece are woefully underdeveloped, but through public-private partnerships, Katseli hopes to develop the zones into profit centers.

17. (SBU) The Ambassador encouraged Katseli to have her staff engage on the ECCC (Economic and Commercial Cooperation Commission), in order to make the strategic dialogue more fruitful. Although the MFA has the lead, it is imperative that the ministries of Finance, Environment/Energy, and Hellenic Aid also be active participants. Katseli took the invitation to heart. She proposed to identify staff to work with the MFA to make the ECCC agenda substantive and relevant. Katseli agreed maintaining the planning momentum already begun to ensure a successful ECCC event in the April/May timeframe. [NOTE: MFA prefers to hold the ECCC in the February/March timeframe. END NOTE]

18. (SBU) COMMENT: Katseli, inexorably tied to her husband's socialist economic policies when he was a former PASOK Minister of the Economy/Finance and because of her previous calls to overturn privatizations, may have a difficult time overcoming the presumption that she will be pro-labor at a time when the Greek economy needs greater flexibility in the labor market. Katseli needs to signal that she unequivocally supports a pro-business approach to the economy. She is a bright woman, with impressive academic credentials, who seems to understand what structural reforms need to be accomplished to jumpstart the economy, create jobs, and stimulate growth. But, she may already have lost some gravitas and credibility when she was unable to decisively resolve the Piraeus Port strike. In fact, her authority was seemingly

undercut when, during the first two week phase of the strike, the Deputy Minister for Transportation was brought in to negotiate. Last week, when the strike flared up again, Deputy Prime Minister Pangalos was brought in as the heavyweight. Despite professed support for forging a business- and investment-friendly environment, Katseli and the PASOK government will only be able to rehabilitate themselves and Greece's reputation with solid and decisive actions. END COMMENT.  
Speckhard